

## Message Text

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ACTION COME-00

INFO OCT-01 EUR-25 ISO-00 EB-11 OPIC-12 OMB-01 TRSE-00

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FM AMEMBASSY WARSAW

TO SECSTATE WASHDC 5617

C O N F I D E T I A L WARSAW 4567

E.O. 11652: N/A

TAGS: PFOR, ETRD, EFIN, BCON, POL, US

SUBJECT: JOINT TRADE COMMISSION: THIRD SESSION: EXCHANGE  
RATE PROBLEMS

REF: (A) WARSAW 4534; (B) VIENNA 7241

1. REFERENCED MESSAGES DESCRIBE SOME OF THE PROBLEMS  
CREATED FOR US FIRMS WITH OFFICES IN POLAND BY THE UN-  
REALISTIC EXCHANGE RATE OF 19.92 ZLOTYS TO THE DOLLAR,  
CHARGED FOR CONVERSIONS MADE BY WESTERN PERMANENT ESTABLISH-  
MENTS IN POLAND. THIS RATE, THE SO-CALLED "SPECIAL RATE",  
IS ONE OF MANY RECOGNIZED EXCHANGE RATES APPLIED TO  
DIFFERENT TYPES OF TRANSACTIONS. SOME OTHER CURRENT RATES  
ARE LISTED BELOW:

FOREIGN-EXCHANGE ZLOTY RATE        \$1.00-3.32 ZLOTYS  
(USED FOR BOOKKEEPING ONLY;  
NO TRANSACTIONS OCCUR AT THIS RATE)

TOURIST EXCHANGE RATE (FOR        \$1.00-33.20 ZLOTYS  
WESTERN TOURISTS CHANGING  
HARD CURRENCY IN POLAND)

DOLLAR PURCHASE RATE (POLES        \$1.00-49.80 ZLOTYS  
TRAVELING TO WEST MAY BUT  
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UP TO \$100 EVERY THREE YEARS AT THIS RATE)

PKO REPURCHASE RATE (DESCRIBED \$1.00-60.00 ZLOTYS  
BELOW)

2. THE "TOURIST RATE" AND THE DOLLAR PURCHASE RATE" ARE CALCULATED AS THE "SPECIAL RATE" OF 19.92 PLUS AN ADDITIONAL "SURCHARGE" (IN THE CASE OF THE DOLLAR PURCHASE RATE) OR "PREMIUM" ( IN THE CASE OF THE TOURIST RATE). THESE RATES ARE TIED TO THE SPECIAL RATE AND MOVE WITH IT.

3. THE PKO REPURCHASE RATE IF OFFICIALLY DESCRIBED AS A "RELATIONSHIP" NOT AS A "RATE". IT IS DEFINED AS THE DOLLAR-ZLOTY RELATIONSHIP "APPLIED BY AUTHORIZED POLISH ENTERPRISES WHEN REPURCHASING GOODS FROM CLIENTS OF THE BANK POLSKA KASA OPIEKA S.A." THIS "RELATIONSHIP" IS CITED IN THE US-POLISH AGREEMENT ON ANNUITY PAYMENTS OF AUGUST 6, 1968, AS THE RATE AT WHICH THAT PORTION OF A US ANNUITY CHECK WHICH IS CASHABLE IN ZLOTYS WILL BE PAID. WE UNDERSTAND THAT THIS RATE OF 60-1 IS THE RATE AT WHICH POLISH HOLDERS OF DOLLARS MAY SELL THEIR DOLLARS TO BANK PKO.

4. GIVEN THE VAST DIFFERENCE IN PRICE STRUCTURE BETWEEN POLISH AND WESTERN SOCIETIES, IT IS BY NO MEANS SIMPLE TO ASSIGN A "FAIR" VALUE TO THE ZLOTY. WE BELIEVE NONETHELESS THAT OUR LONG-TERM POLICY SHOULD BE TO ENCOURAGE THE USE OF A SINGLE, REALISTIC RATE FOR ALL TRANSACTIONS. SUCH A RATE WOULD FALL IN THE RANGE OF 50-65 ZLOTYS TO THE DOLLAR.

5. WE MIGHT WELL ARGUE THAT EMPLOYEES OF PERMANENT ESTABLISHMENTS IN POLAND SHOULD BE PERMITTED TO PURCHASE LOCAL CURRENCY AT THE SAME RATE ACCORDED TO POLISH CITIZENS RESIDENT IN POLAND, THAT IS, AT \$1.00 EQUALS 60 ZLOTYS. WE COULD CERTAINLY MAKE THE CASE THAT THE MERE FACT OF PERMANENT ESTABLISHMENT IN POLAND SHOULD NOT SO PREJUDICE THE WESTERNER THAT HE LOSES ACCESS TO THE TOURIST RATE OF 33.20. ANY CHANGE IN PRESENT GOP EXCHANGE POLICIES IS, HOWEVER, UNLIKELY.

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6. AN ALTERNATIVE SOLUTION, AVOIDING THE EXCHANGE-RATE PROBLEM, WOULD INVOLVE REVISION OF THE MARCH AGREEMENT ON BUSINESS FACILITIES TO PERMIT THE USE OF ZLOTYS GENERATED IN POLAND FOR RENTS AS WELL AS FOR OTHER IN-COUNTRY EXPENSES. SINCE SALES FOR ZLOTYS BY US COMPANIES IN POLAND REDUCE THE HARD-CURRENCY COSTS TO POLISH CUSTOMERS, SUCH AN ARRANGEMENT WOULD NOT HAVE BALANCE-OF-PAYMENTS DISADVANTAGES FOR POLAND AND MIGHT BE ACCEPTABLE

TO THE GOP. A PRECEDENT FOR THIS SOLUTION EXISTS IN THE  
US-POLISH AIR TRANSPORT AGREEMENT OF JULY 19, 1972, THE  
ENCLOSURE TO WHICH PROVIDES THAT QUOTE REVENUES FROM  
SALES PERFORMED (FOR LOCAL CURRENCY) MAY, AT THE OPTION OF  
THE DESIGNATED AIRLINE OF THE UNITED STATES, BE USED IN WHOLE OR  
IN PART TO COVER ITS LOCAL EXPENSES CONNECTED WITH THE  
OPERATION OF ITS AIR SERVICE AND WITH THE ACTIVITIES OF  
ITS LOCAL REPRESENTATIVES. LOCAL EXPENSES FOR WHICH SUCH  
REVENUES MAY BE USED INCLUDE OFFICE MAINTENANCE (INCLUDING  
SALARIES AND RENT OF OFFICES AND HOUSING), MAINTENANCE OF  
COMPANY VEHICLES, ADVERTISING, LANDING AND OTHER AIRPORT  
FEES, AND FUEL NECESSARY FOR SERVICING AIRCRAFT. END QUOTE.

7. THIS PROVISION PERMITS PAN AMERICAN TO MAINTAIN ITS  
OPERATIONS IN POLAND WITH A RELATIVELY SMALL DOLLAR OUTLAY,  
AND IT APPEARS ADAPTABLE TO OTHER US COMPANIES ACCREDITED  
TO POLAND. PAYMENT OF RENTS WITH LOCALLY EARNED ZLOTYS  
MIGHT PROVIDE SIGNIFICANT RELIEF FOR COMPANIES NOW FACED  
WITH THE NEED TO PURCHASE ZLOTYS AT 19.92 TO THE DOLLAR.  
DAVIES

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